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FISCAL IMPACT STATEMENT

LS 7295 | **NOTE PREPARED:** Jan 22, 2011
BILL NUMBER: SB 551 | **BILL AMENDED:**

SUBJECT: Public Employees' Defined Contribution Plan.

FIRST AUTHOR: Sen. Waltz | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State&Local
X DEDICATED
X FEDERAL

Summary of Legislation: This bill requires the Board of Trustees (Board) of the Public Employees' Retirement Fund (PERF) and the Indiana State Teachers' Retirement Fund (TRF) to establish, for individuals who, after June 30, 2011, become full-time employees of the state, a participating political subdivision, or a school corporation, a defined contribution plan (plan) using the PERF and TRF annuity savings accounts, or as a separate fund.

The bill requires the Board to establish the alternative investment programs within the PERF and TRF annuity savings accounts as the initial alternative investment programs for the plan. It requires the Board to include a stable value fund as an investment option.

The bill requires that each plan member, as a condition of employment, make an annual contribution equal to 3% of the member's compensation. It requires a plan member's employer to make an annual contribution in an amount determined by the rules of the Board, with a minimum contribution of 3% of the member's compensation. The bill also allows withdrawals at the earliest date, and requires withdrawals at the latest date, permitted by the Internal Revenue Service. It requires that a withdrawal amount be paid as a lump sum, a direct rollover to another eligible retirement plan, or a monthly annuity purchased by the Board.

The bill requires the General Assembly to appropriate an amount sufficient to fund the required contributions.

Effective Date: July 1, 2011.

Explanation of State Expenditures: The impact would depend on the contribution rates set by PERF and

TRF for the state and local units. If the employer contribution rates were set at the current employer contribution rate, there would be no fiscal impact. If it is set lower than the current rates, then there would be a savings to the employer. And if it is set above the current rates, then there would be a cost to the employer.

The initial impact would be minor since the new plan would only apply to new employees. The defined benefit employer contribution rate is 7.5% for TRF and 8.6% for PERF state employees as of June 30, 2010. The local employer PERF contribution rate for the defined benefit plan varies depending on the actuarial experience of the local unit.

The bill would increase the state General Fund administrative cost for the plans. Currently, the administrative costs of administering the current retirement plans are paid from the respective funds' revenue. The bill would require the state to appropriate from the General Fund money required for the administration of the new plans. Initially, the cost of the new plans could be small, but would increase over time. The administrative costs in FY 2010 were about $27.18 M for PERF and $7.86 M for TRF.

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures.*

Explanation of Local Revenues:

State Agencies Affected: PERF; TRF.

Local Agencies Affected: Units with members in PERF; School corporations with members in TRF

Information Sources: John Dowell, Nyhart Group, actuaries for TRF, 317-845-3580.

Fiscal Analyst: Chuck Mayfield, 317-232-4825.